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Capital markets and the pandemic: the new CMU action plan in light of the post-Covid recovery

As we try to grasp the massive economic effects of the Covid-19 pandemic, we must realize that a crisis is not only a destructive force, but also a chance to reconstruct. Developing the EU's capital markets, and ensuring access to market financing, will be essential in this respect. We are convinced that better-capitalized companies and a vibrant capital market are two of the most essential ingredients to rebuild Europe's economy.

The second CMU action plan has its focus on three pillars:

- 1) support of green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies;
- 2) Make the EU a safer place for individuals to save and invest long-term;
- 3) to integrate national capital markets into a genuine single market.

With all of these angles Erste Group can highly associate and we do believe they cover key elements of the path to economic recovery. In our initial assessment we found that the CMU action plan covers four areas that are of strategic importance for the further integration and development of EU capital markets. These are measures:

- to incentivize retail investment (e.g. through adjustments of MiFID rules on advice);
- to promote equity investments (e.g. through reduced capital requirements);
- to foster financial literacy and,
- to improve protection of intra-EU investments.

Without a doubt, all of those measures are important as they will contribute to an overall strengthening of Europe's capital markets. While the CMU action plan is a comprehensive plan addressing both short-term and mid-term targets, we must realize that the economic pressure stemming from the pandemic is tremendous and that there is an obvious need to prioritize.

We consider measures to improve the equity base of SMEs particularly important – not without reason are they often referred to as the “backbone” of the EU economy. Almost 60 percent of the continent's GDP and 70 percent of the jobs depend on this sector. In smaller countries these ratios can be even higher. Most of the SMEs are not publicly listed and heavily rely on bank financing. Just as during past crises, slumping revenues during the pandemic have eaten into these companies' capital, limiting their ability to borrow and take risks, which ultimately hampers investment

in new business areas such as green technology.

Having the post-COVID business environment in mind, we must think of possibilities to strengthen the equity base of SME. Such possibilities are partly reflected in the points mentioned above, but also in other areas of the action plan such as the idea of a European Single Access Point (ESAP), simplified access to public markets for SME, the review of European Long Term Investment Fund (ELTIF) regulation, the promotion of referrals for SME to market-based financing options as well as the review of the securitization framework.

Apart from these initiatives there is also a lot the private sector can do. Erste Group has for instance started an equity initiative for SMEs more than 10 years ago and we recently further increased our efforts in this area. From a practical point of view, creating a legal framework throughout the EU, which enables such initiatives even further and also strengthens retail investments is of key importance. Here we see a need on the EU level to spread best practices across member states. The situation is even more pressing as the pandemic has triggered a large increase of private savings, which could partially be used by retail investors to contribute to and participate in the economic recovery within the EU.

Generating growth for Europe's post-Covid-19 economy depends on substantially stronger market financing and higher levels of equity, especially for our SMEs. The CMU action plan is an adequate tool to contribute to achieve this but needs to be followed by bold political decisions on all levels. Ultimately, better capitalized SMEs and a more integrated capital market will help to advance what Europe really needs to become more crisis-proof: ambitious digitalization and sustainability agendas.